

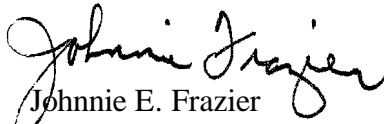


UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 19, 1998

MEMORANDUM FOR: Courtland Cox
Acting Director
Minority Business Development Agency

FROM:


Johnnie E. Frazier
Acting Inspector General

SUBJECT: Audit of MBDA's FY 1997 Financial Statements
Audit Report No. FSC-9863-8-0001

The attached report presents the results of the audit of the Minority Business Development Agency's Statements of Financial Position as of September 30, 1997, and 1996, and the related Statements of Operations and Changes in Net Position for the years then ended. Also provided are reports on MBDA's internal control structure and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by MBDA.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and activities for each office, bureau, and activity of the Department. To facilitate the consolidated audit process, the independent certified public accounting firm of Urbach Kahn & Werlin PC (UKW) was contracted to audit MBDA's FY 1997 Statement of Financial Position and related Statement of Operations and Changes in Net Position. The Office of Inspector General defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

In the opinion of UKW, the financial statements present fairly, in all material respects, the financial position of MBDA as of September 30, 1997, and 1996, and the results of its operations for the years then ended, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the UKW audit indicate that MBDA and its provider of accounting services have been successful in establishing an internal control structure that facilitates the preparation of reliable accounting and financial information.

UKW's Report on Internal Controls identifies two reportable conditions in MBDA's internal control structure:

- MBDA should review EDA's year end financial reporting, including the estimation of accrued grant expenditures.
- Controls surrounding the Financial Accounting and Reporting System need improvement.

While the UKW report on internal controls contains no material weaknesses, it identified one reportable condition, Controls Surrounding the Financial Accounting and Reporting System (FARS) Need Improvement. As a result of a general controls review performed by the OIG at the Office of Computer Services (OCS), several issues were identified relating to the controls surrounding the mainframe system on which the FARS application is processed. UKW considered the issues identified to be a reportable condition to MBDA because FARS processes the financial information used in preparing MBDA's financial statements. Since MBDA management is not responsible for the general controls surrounding FARS, recommendations were directed to OCS management in the OIG Report No. FSD-10021-8-0001, *Information Systems General Controls Review of OCS*.

UKW identified one instance of material non-compliance in their Report on Compliance with Laws and Regulations. Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the auditors are required to report on whether the bureau's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level. MBDA's core financial management system does not comply with certain systems requirements. The National Institute of Standards and Technology's (NIST) Office of Financial Management performs a significant portion of the financial transaction processing and reporting for MBDA. NIST's Financial Accounting and Reporting System (FARS) does not maintain sufficient commonality of data elements and transaction processing sufficient to ensure timely, accurate and effective financial reporting, as required by Federal guidance.

Our office reviewed a draft version of MBDA's overview to its FY 1997 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We shared our observations and recommendations in a January 12, 1998, discussion paper and a subsequent meeting with MBDA management. MBDA was responsive to our observations and recommendations, subsequently revising this integral component of the financial statements. MBDA officials indicated that they plan to make additional revisions to strengthen the overview for FY 1998 and beyond.

The revised overview (1) links the bureau's goals with the mission statement in the Department's *Strategic Plan*; (2) provides some performance information for FY 1996 and FY 1997; and (3) provides limited discussion on MBDA's financial condition and results. However, MBDA needs to strengthen reported results of program performance (e.g., outcome and cost-

effectiveness measures) and improve the presentation of performance data to facilitate trend analysis and the assessment of whether target levels of performance are achieved.

In order to improve the usefulness of the overview to decision-makers, such as OMB and the Congress, we encourage MBDA to address the observations contained in our discussion paper. Also, continued improvement will be needed for the overview to be consistent with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, to “provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition.” The OIG realizes that improving the overview is an iterative process and encourages MBDA to strengthen next year’s discussion of the bureau’s results.

We recognize MBDA’s commitment to preparing high quality and meaningful financial statements. To continue to meet this objective, it will be necessary that the accounting requirements set forth in OMB Bulletin 97-01 are taken into consideration for preparation of the fiscal year 1998 financial statements. Implementation of OMB Bulletin 97-01 poses tremendous challenges for various reasons. In particular, this bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, which required two. One of the six statements, the Statement of Net Cost, requires MBDA to report its costs by sub-organizations and programs, which should be based on the missions and outputs describes in MBDA’s GPRA strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not been required previously to report information in such a manner for financial and budgetary purposes, MBDA will need to place appropriate emphasis on implementation of OMB Bulletin 97-01.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan is Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal. The DAO prescribes procedures for handling any disagreements this office may have with the audit action plan.

If you wish to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Thomas McCaughey, Director, Financial Statement Contract Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by MBDA during the audit.

cc: W. Scott Gould
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